

**REPORT OF THE AUDIT OF THE  
OWSLEY COUNTY  
CLERK**

**For The Year Ended  
December 31, 2005**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Cale Turner, Owsley County Judge/Executive  
The Honorable Sid Gabbard, Owsley County Clerk  
Members of the Owsley County Fiscal Court

The enclosed report prepared by Percy and Gray, PSC, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Owsley County, Kentucky, for the year ended December 31, 2005.

We engaged Percy and Gray, PSC to perform the audit of this statement. We worked closely with the firm during our report review process; Percy and Gray, PSC evaluated the Owsley County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

Enclosure





## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE OWSLEY COUNTY CLERK**

**For The Year Ended  
December 31, 2005**

Peercy and Gray, PSC was engaged to complete the audit of the Owsley County Clerk for the year ended December 31, 2005. Based upon the work performed, we have disclaimed an opinion on the financial statement and supplemental information.

#### **Financial Condition:**

The County Clerk's financial statement shows a deficit of \$8. However, based upon available documentation, the County Clerk had a shortage of \$65,166 which he covered with \$58,391 in personal funds.

#### **Report Comments:**

- 2005-1 The County Clerk Deposited \$58,391 Of His Own Money And Had \$8,800 Of Unidentified Cash Receipts To Cover A \$65,166 Shortage In His Fee Account
- 2005-2 Surprise Cash Count And Subsequent Testing Revealed A \$49,988 Shortage In The 2005 Fee Account As Of August 31, 2005
- 2005-3 The County Clerk May Have Commingled Public And Private Funds
- 2005-4 The County Clerk Should Record Payments From The Commonwealth And Fiscal Court In Accordance With KRS 43.075
- 2005-5 The County Clerk Should Deposit Funds Into An Interest Bearing Account
- 2005-6 Receipts Are Not Issued In Triplicate
- 2005-7 Motor Vehicle Usage Tax Not Remitted Timely
- 2005-8 Discrepancy In Fish And Wildlife Payments
- 2005-9 The County Clerk Appeared To Use UPS For Non-Business Reasons
- 2005-10 Board Of Education Owed \$369.58 Due To The County Clerk's Failure To Pay June Collection
- 2005-11 Failure To Comply With The Uniform System Of Accounts
- 2005-12 The County Clerk Is Not Recording Payroll Paid By The Fiscal Court Correctly
- 2005-13 The County Clerk's Office Lacks Adequate Segregation Of Duties
- 2005-14 Others Are Signing The County Clerk's Signature On Checks And Other Forms

#### **Deposits:**

The County Clerk's deposits were fully insured.



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## **PEERCY AND GRAY, PSC**

**Certified Public Accountants**

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The Honorable Cale Turner, Owsley County Judge/Executive  
The Honorable Sid Gabbard, Owsley County Clerk  
Members of the Owsley County Fiscal Court

### Independent Auditor's Report

We were engaged to audit the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Owsley County, Kentucky, for the year ended December 31, 2005. This financial statement is the responsibility of the County Clerk.

The Owsley County Clerk did not maintain adequate accounting records to allow us to verify the revenues and expenditures and determine the validity of the transactions for the year ended December 31, 2005. We were unable to apply procedures to determine whether the financial statement is presented fairly in conformity with the regulatory basis of accounting and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Owsley County Clerk's records did not permit the application of other auditing procedures to revenues and expenditures for the year ended December 31, 2005.

Since the Owsley County Clerk did not maintain adequate accounting records and we were unable to apply other auditing procedures to satisfy ourselves as to the revenues and expenditures, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on this financial statement.

We were engaged to audit the financial statement referred to above for the purpose of forming an opinion on the financial statement. The Schedule Of Excess Of Liabilities Over Assets is presented for purposes of additional analysis and is not a required part of the financial statement. As discussed in the third paragraph above, the scope of our work was not sufficient to enable us to express an opinion on the financial statement of the County Clerk. Similarly, we are unable to express and do not express an opinion on the Schedule Of Excess of Liabilities over Assets.

Based on the results of our work, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2005-1 The County Clerk Deposited \$58,391 Of His Own Money And Had \$8,800 Of Unidentified Cash Receipts To Cover A \$65,166 Shortage In His Fee Account
- 2005-2 Surprise Cash Count And Subsequent Testing Revealed A \$49,988 Shortage In The 2005 Fee Account As Of August 31, 2005
- 2005-3 The County Clerk May Have Commingled Public And Private Funds
- 2005-4 The County Clerk Should Record Payments From The Commonwealth And Fiscal Court In Accordance With KRS 43.075
- 2005-5 The County Clerk Should Deposit Funds Into An Interest Bearing Account

The Honorable Cale Turner, Owsley County Judge/Executive  
Honorable Sid Gabbard, Owsley County Clerk  
Members of the Owsley County Fiscal Court

- 2005-6 Receipts Are Not Issued In Triplicate
- 2005-7 Motor Vehicle Usage Tax Not Remitted Timely
- 2005-8 Discrepancy In Fish And Wildlife Payments
- 2005-9 The County Clerk Appeared To Use UPS For Non-Business Reasons
- 2005-10 Board Of Education Owed \$369.58 Due To The County Clerk's Failure To Pay June Collection
- 2005-11 Failure To Comply With The Uniform System Of Accounts
- 2005-12 The County Clerk Is Not Recording Payroll Paid By The Fiscal Court Correctly
- 2005-13 The County Clerk's Office Lacks Adequate Segregation Of Duties
- 2005-14 Others Are Signing The County Clerk's Signature On Checks And Other Forms

In accordance with Government Auditing Standards, we have also issued our report dated March 8, 2006, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Owsley County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The signature is written in a cursive, flowing style.

Percy and Gray, PSC  
Certified Public Accountants

Audit fieldwork completed -  
March 8, 2006

OWSLEY COUNTY  
SID GABBARD, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

State Fees For Services	\$	1,950
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Fiscal Court		17,942
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	104,382
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Usage Tax		88,209
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Tangible Personal Property Tax		230,584
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Other-

Fish and Game		14,673
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Marriage		1,449
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Deed Transfer Tax		2,653
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Delinquent Tax	16,601	458,551
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	3,561	
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Real Estate Mortgages	1,518	
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Chattel Mortgages and Financing Statements	13,176	
--	--------	--

Powers of Attorney	180	
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All Other Recordings	3,620	
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Charges for Other Services-

Lien Fees	1,665	23,720
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Other:

Miscellaneous	4,348	
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County Reimbursements	339	4,687
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Total Revenues		506,850
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Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	77,661
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Usage Tax		85,562
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Tangible Personal Property Tax		88,849
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The accompanying notes are an integral part of this financial statement.

OWSLEY COUNTY  
 SID GABBARD, COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2005  
 (Continued)

Expenditures (Continued)

Payments to State: (Continued)

Licenses, Taxes, and Fees-

Fish and Game	15,586	
Delinquent Tax	1,725	
Legal Process Tax	<u>4,017</u>	273,400

Payments to Fiscal Court:

Tangible Personal Property Tax	23,182	
Delinquent Tax	3,044	
Deed Transfer Tax	<u>2,560</u>	28,786

Payments to Other Districts:

Tangible Personal Property Tax	109,335	
Delinquent Tax	<u>8,613</u>	117,948

Payments to Sheriff 370

Payments to County Attorney 1,850

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 21,434

Materials and Supplies-

Office Supplies 625

Other Charges-

Miscellaneous 912

Postage 3,422

Telephone 1,570 27,963

Total Expenditures 450,317

Net Revenues 56,533

Less: Statutory Maximum Received 56,541

Deficit \$ (8)

The accompanying notes are an integral part of this financial statement.

OWSLEY COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31, that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2005

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

OWSLEY COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2005  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2005, the County Clerk's deposits were fully insured.

Note 4. Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$7,309. Funds totaling \$4,364 were expended during the year. The unexpended grant balance was \$2,945 as of December 31, 2005.

OWSLEY COUNTY  
SID GABBARD, COUNTY CLERK  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS-REGULATORY BASIS

December 31, 2005

Assets

Cash in Bank	\$ 26,471
Receivables:	<u>2,655</u>
Total Assets	<u>29,126</u>

Liabilities

Paid Obligations-		
Outstanding Checks	14,677	
Outstanding Liabilities	<u>20,854</u>	35,531
Unpaid Obligations		
Board of Education		<u>370</u>
Total Liabilities		<u>35,901</u>

Total Fund Balance Including Clerk's Personal Deposits as of December 31, 2005	(6,775)
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Less : Personal Funds Deposited By The Clerk

September 10, 2005	(28,391)
September 13, 2005	<u>(30,000)</u>

Total Excess Of Liabilities Over Assets	<u><u>\$ (65,166)</u></u>
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## COMMENTS AND RECOMMENDATIONS



OWSLEY COUNTY  
SID GABBARD, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2005

STATE LAWS AND REGULATIONS:

2005-1 The County Clerk Deposited \$58,391 Of His Own Money And Had \$8,800 Of Unidentified Cash Receipts To Cover A \$65,166 Shortage In His Fee Account

Based upon available documentation and after a surprise cash count conducted by the Auditor of Public Accounts on August 31, 2005, the following items should be noted:

- The County Clerk deposited \$58,391 of his own money in September 2005 to cover a shortage in his fee account. (See Comment 2005-2)
- On December 31, 2005, the County Clerk had \$26,471 in his fee bank account and had \$35,901 in outstanding checks and liabilities.
- During January, the County Clerk deposited \$2,655 of 2005 receipts in his 2005 fee bank account.
- After December 31, 2005, the County Clerk deposited \$8,800 in unidentified receipts into his 2005 fee bank account to cover the remaining portion of the shortage not covered by prior deposit of personal funds.

We believe the \$65,166 shortage was cumulative and due to receipts of one year being used to cover expenditures of previous years. It is apparent checks due to taxing districts were written but not mailed and were held by the County Clerk for a significant amount of time. Auditors have been unable to express an opinion on the financial statements of the County Clerk for the last five years.

This matter is being referred to the Office of Attorney General to determine if further investigation is warranted. Additional details may be found in the following comments.

*County Clerk's Response: All monies have been paid. All shortages corrected.*

2005-2 Surprise Cash Count And Subsequent Testing Revealed A \$49,988 Shortage In The 2005 Fee Account As Of August, 31, 2005

The Auditor of Public Accounts' office conducted a surprise cash count of the Owsley County Clerk on August 31, 2005 because of the questionable activity discovered during the 2004 audit of the County Clerk. The County Clerk was told to deposit all money on hand at that time.

- On August 31, 2005 the County Clerk had a balance of \$9,467 in his 2005 fee account. The deposit made on August 31, 2005 totaled \$8,999, and was the only deposit in transit. There were outstanding checks and liabilities of \$68,454. This resulted in a shortage of fees of \$49,988 as of August 31, 2005.
- The County Clerk deposited \$58,391 of his personal funds into the account during the month of September.

OWSLEY COUNTY  
 SID GABBARD, COUNTY CLERK  
 COMMENTS AND RECOMMENDATIONS  
 For The Year Ended December 31, 2005  
 (Continued)

- A comparison was made using the 2005 cash receipts ledger from January 1 through June 30, 2005 to the unidentified cash deposits made in the 2004 fee bank account. We noted undeposited receipt amounts for 2005 were similar to the unidentified deposits made in the 2004 fee bank account. Also, we noted a \$46,087 difference between the amounts recorded on the 2005 cash receipts ledger to the amount deposited in the 2005 fee bank account.
- Our documentation reflects a significant time-lapse between the date checks were written and the dates they cleared the bank. Testing indicates a pattern between the payees on the check; usually a taxing district, and the date checks cleared the bank. For example, outstanding checks noted for one taxing district were dated from February 10, 2005 through August 10, 2005, totaling seven checks. All seven checks cleared the bank on September 13, 2005. This pattern was repeated for almost all taxing districts.
- As of February 28, 2006, checks made payable to taxing districts and totaling \$10,776 remain outstanding for calendar year 2005. These checks have not been received by the taxing district, voided or replaced. The following is a breakdown of taxing districts due money from the County Clerk:

Board of Education	\$ 4,530
City of Booneville	1
County Attorney	140
Extension	6,105

- The County Clerk does not make deposits daily as required. Receipts are batched daily and posted to the receipts ledger, but a deposit ticket is not completed for that day. Some weeks only one or two deposits are made.
- The County Clerk is not preparing monthly bank reconciliations. The County Clerk should prepare a monthly reconciliation, listing outstanding checks and deposits in transit. The ending balance should equal the balance in the checkbook. He should also verify monthly deposits and checks that have cleared the bank, and investigate any discrepancies.

The County Clerk should ensure that all funds collected are deposited in a timely manner and disbursed to the appropriate taxing districts by the tenth of the month, as required by KRS 134.815, following collections.

We recommend the County Clerk properly identify, deposit, record and agree all receipts to a daily checkout sheet and the receipts ledger in a timely fashion. All disbursements should be made timely and properly recorded in the disbursement ledger. The fee account should be timely reconciled and any significant time-lapse in receipts/disbursements should immediately be investigated and resolved.

We further recommend the County Attorney take necessary action to secure the payment of these obligations to the appropriate taxing districts and notify the Governor's Office for Local Development when these payments have been made. This matter is being referred to the Office of Attorney General to determine whether further investigation is warranted.

*County Clerk's Response: Daily deposits are being made. All disbursements have been made.*

OWSLEY COUNTY  
SID GABBARD, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2005  
(Continued)

2005-3 The County Clerk May Have Commingled Public and Private Funds

Audit staff was told by the County Clerk that he keeps large sums of cash on hand in order to cash checks for nonofficial business. Also, testing discovered the County Clerk's paychecks were stamped with the office endorsement. KRS 64.850 states an official should not 'withdraw public funds for any purpose other than that for which they were received and deposited.' The cashing of checks for himself and other individuals may constitute commingling of public and private funds by the County Clerk.

We recommend the County Clerk keep his fees and taxes separate from private funds. This matter is being referred to the Office of Attorney General to determine whether further investigation is warranted.

*County Clerk's Response: No checks are being cashed. No money kept on hand.*

2005 - 4 The County Clerk Should Record Payments From The Commonwealth And Fiscal Court In Accordance With KRS 43.075

The County Clerk should record all payments received from the Commonwealth of Kentucky and the Owsley County Fiscal Court in accordance with KRS 43.075. During our testing, we found that these payments were not recorded on the daily checkout sheets or in the receipts ledger. The only recording of these payments was made on the Quarterly Report, and those amounts did not agree exactly to the Schedule of State Payments and County Payments

We recommend the County Clerk record payments from the Commonwealth and Fiscal Court on the Daily Check Out Sheets and Receipts Ledger in accordance with KRS 43.075.

*County Clerk's Response: All payments will be recorded.*

2005-5 The County Clerk Should Deposit Funds Into An Interest Bearing Account

The County Clerk should deposit funds into an interest bearing account. The County Clerk has stated that the local bank requires the account to maintain a minimum balance that he cannot maintain. This could be accomplished by opening a savings account for depositing all receipts and transferring amounts periodically to cover checks written.

We recommend the County Clerk explore options with the local bank to assure that the funds are in an interest bearing account.

*County Clerk's Response: Corrected.*

OWSLEY COUNTY  
SID GABBARD, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2005  
(Continued)

2005-6 Receipts Are Not Issued In Triplicate

The County Clerk does not issue receipts in triplicate, as required by KRS 64.840. One copy should be given to the customer, one copy should be retained in numerical order, and one copy should be kept with the daily bank deposit and checkout sheet. No copy is kept with the daily bank deposit and checkout sheet.

We recommend that receipts be issued in triplicate, with one receipt kept with the daily deposit ticket and checkout sheet so receipts can be easily traced.

*County Clerk's Response: Receipts have been ordered.*

2005-7 Motor Vehicle Usage Tax Not Remitted Timely

The County Clerk is required by KRS 138.464 to report to the Department of Revenue all motor vehicle usage tax on each Monday for the previous week, and remit such tax to a state bank account daily. Deposits can be made no later than the next business day. There is a minimum \$50 fine for each noncompliance. The County Clerk paid \$150 in fines to the Department of Revenue from his 2005 fee account for noncompliance during 2004. These penalties are disallowed expenditures.

We recommend that the County Clerk reimburse his 2005 fee account \$150 from his personal funds. We also recommend that all reports and payments be submitted timely.

*County Clerk's Response: \$150 has been deposited. Payments & reports are being made timely.*

2005-8 Discrepancy In Fish And Wildlife Payments

The County Clerk recorded \$14,673 of receipts and \$15,586 of expenditures for Fish and Wildlife in his 2005 fee account. He expended \$913 more than he received. The County Clerk said it was probably overdraft charges, but he never sees the bank statements. He said he has no control over this checking account, and the state was making periodic withdrawals.

We recommend the County Clerk make daily deposits into the Fish and Wildlife account, so the funds are in place before the state makes a withdrawal.

*County Clerk's Response: Will correct.*

OWSLEY COUNTY  
SID GABBARD, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2005  
(Continued)

2005-9 The County Clerk Appeared To Use UPS For Non-Business Reasons

The County Clerk paid a total of \$3,285.73 to United Parcel Service (UPS) in 2005. Of that amount, invoices totaling \$1,902.04 were selected for testing. The County Clerk could not provide detailed invoices for these disbursements. The auditor observed an unidentified individual asking the Deputy County Clerk if she could send a box through UPS, and volunteered that it contained bean seed. The Deputy County Clerk said she could send the box. No money exchanged hands.

The County Clerk was not present during this exchange, but was told of the situation. He said that payments for reimbursements were included in Miscellaneous Receipts. This could not be verified.

KRS 64.850 states an official should not 'withdraw public funds for any purpose other than that for which they were received and deposited.' Providing UPS services to citizens may constitute commingling of public and private funds by the County Clerk.

We recommend that the County Clerk not use public funds to provide UPS services to the public.

*County Clerk's Response: Will correct.*

2005-10 Board Of Education Owed \$369.58 Due To The County Clerk's Failure To Pay June Collection

During our testing of delinquent tax reports, it was noted the County Clerk failed to write one check to the Board of Education for the June delinquent tax collection.

We recommend that the County Clerk pay this amount immediately to the Board of Education, and remit all payments timely.

*County Clerk's Response: Check for \$369.58 was written and mailed to Board of Education.*

2005-11 Failure To Comply With The Uniform System Of Accounts

Findings 2005-1 through 2005-10 above represent a significant failure to comply with the Uniform System of Accounts as adopted under KRS 68.210 and KRS 43.075(3). Among other provisions, this statute requires the official to maintain accurate recording of receipts by source and expenditures by payee, and to fulfill all other legal requirements relating to the management of public funds by his office, including all publications requirements. The requirements for uniform formats for audit reports shall require that the format of reports for each category of county or district office shall be uniform.

We recommend the County Clerk meet minimum standards of accountability in compliance with the Uniform system of Accounts.

*County Clerk's Response: Will correct.*

OWSLEY COUNTY  
SID GABBARD, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2005  
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:

2005-12 The County Clerk Is Not Recording Payroll Paid By the Fiscal Court Correctly

Fiscal Court writes all paychecks and handles all payroll recordkeeping for the County Clerk's office. Fiscal Court pays approximately half of the County Clerk's salary. The County Clerk should reimburse Fiscal Court the gross amount of his office's payroll. We noted the County Clerk also writes himself the same monthly paycheck out of his fee account. According to bank deposit tickets, the County Clerk then deposited either one or both checks into his fee account. Also, the majority of his payroll checks are stamped with the County Clerk's office endorsement. The County Clerk stated this was done because he was cashing his paycheck out of the cash drawer. We could not determine whether the County Clerk was being paid twice or if this caused a shortage in his fee account. In addition, we could not determine the exact amount paid to the County Clerk.

We recommend the County Clerk stop writing this paycheck from his Fee Account, to avoid all appearances of performing his personal banking.

*County Clerk's Response: We have stopped writing any paychecks. Fiscal Court writes payroll checks.*

2005-13 The County Clerk's Office Lacks Adequate Segregation Of Duties

During our audit, we noted the County Clerk's internal control structure lacked an adequate segregation of duties. There is a limited staff size, which prevents adequate division of responsibilities. In our judgment, this condition could adversely affect the County Clerk's ability to record, process, summarize and report accurate financial information. We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control such as functions prescribed by statutes and regulations, and by budgetary constraints. However, the lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards.

We recommend the County Clerk implement the following compensating controls that would compensate for the lack of adequate segregation of duties:

- Daily deposits be recounted and deposited by the County Clerk
- Reconciliation of reports to source documents by the County Clerk
- All disbursement checks to be signed by two people, one must be the County Clerk
- The County Clerk examine all disbursement checks prepared by office employees for proper documentation
- The County Clerk mails or delivers tax payments to districts
- The County Clerk or someone of independent of the County Clerk's Office prepares the bank reconciliation

*County Clerk's Response: Will correct.*



OWSLEY COUNTY  
SID GABBARD, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2005  
(Continued)

2005-14 Others Are Signing The County Clerk's Signature On Checks And Other Forms

County Clerk Sid Gabbard is the only approved check signer on the 2005 account. However, it appears that several others are signing his name on the checks and other forms, as they are very different than his signature witnessed by the auditors on the engagement letter.

We recommend that only approved check signers sign the County Clerk's checks.

*County Clerk's Response: Have contacted bank. Deputy Clerks can now sign checks.*

PRIOR YEAR:

The following findings were included in the prior year report and were not corrected:

- 2004-01 The County Clerk Has A \$61,876 Shortage In His 2004 Fees With Questionable Activity
- 2004-02 Undeposited Receipts In Auditor's Comparison Of Receipts In 2005 Fee Account Were Similar To Unidentified Deposits Made In 2004 Fee Account
- 2004-03 The County Clerk May Have Commingled Public And Private Funds
- 2004-04 The County Clerk Had Disallowed Disbursements Of \$434.75 In Bank Service Charges
- 2004-06 The County Clerk Should Retain Copies Of All Reports Prepared In Accordance With KRS 43.075
- 2004-07 The County Clerk Should Record Payments From The Kentucky State Treasurer And Fiscal Court In Accordance With KRS 43.075
- 2004-08 The County Clerk Should Deposit Funds Into An Interest Bearing Account
- 2004-09 Receipts Are Not Issued In Triplicate
- 2004-10 Motor Vehicle Usage Tax Not Remitted Timely
- 2004-11 Failure To Comply With The Uniform System Of Accounts
- 2004-12 The County Clerk Is Not Recording Payroll Paid By the Fiscal Court Correctly
- 2004-13 The County Clerk's Office Lacks Adequate Segregation Of Duties
- 2004-14 Others Are Signing The County Clerk's Signature On Checks And Other Forms

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





## **PEERCY AND GRAY, PSC**

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The Honorable Cale Turner, Owsley County Judge/Executive  
Honorable Sid Gabbard, Owsley County Clerk  
Members of the Owsley County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We were engaged to audit the statement of revenues, expenditures, and excess fees - regulatory basis of the Owsley County Clerk for the year ended December 31, 2005, and have issued our report thereon dated March 8, 2006, wherein we disclaimed an opinion on the financial statement because the County Clerk failed to maintain adequate accounting records.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Owsley County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- 2005-12 The County Clerk Is Not Recording Payroll Paid By The Fiscal Court Correctly
- 2005-13 The County Clerk's Office Lacks Adequate Segregation Of Duties
- 2005-14 Others Are Signing The County Clerk's Signature On Checks And Other Forms

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Owsley County Clerk's financial statement for the year ended December 31, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- 2005-1 The County Clerk Deposited \$58,391 Of His Own Money And Had \$8,800 Of Unidentified Cash Receipts To Cover A \$65,166 Shortage In His Fee Account
- 2005-2 Surprise Cash Count And Subsequent Testing Revealed A \$49,988 Shortage In The 2005 Fee Account As Of August 31, 2005
- 2005-3 The County Clerk May Have Commingled Public And Private Funds
- 2005-4 The County Clerk Should Record Payments From The Commonwealth And Fiscal Court In Accordance With KRS 43.075
- 2005-5 The County Clerk Should Deposit Funds Into An Interest Bearing Account
- 2005-6 Receipts Are Not Issued In Triplicate
- 2005-7 Motor Vehicle Usage Tax Not Remitted Timely
- 2005-8 Discrepancy In Fish And Wildlife Payments
- 2005-9 The County Clerk Appeared To Use UPS For Non-Business Reasons
- 2005-10 Board Of Education Owed \$369.58 Due To The County Clerk's Failure To Pay June Collection
- 2005-11 Failure To Comply With The Uniform System Of Accounts

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Peercy and Gray, PSC  
Certified Public Accountants

Audit fieldwork completed -  
March 8, 2005

